

Message Text

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C O N F I D E N T I A L OECD PARIS 11635

PASS CEA, TREAS, FRB

E.O. 11652: GDS
TAGS: OECD, ECON
SUBJECT: APRIL 29 MEETING OF ECONOMIC POLICY COMMITTEE
(EPC) BUREAU: OECD SECRETARIAT PAPER ON SHORT TERM
ECONOMIC OUTLOOK

REF: OECD PARIS 6537

1. PURSUANT TO AGREEMENT AT MARCH 1 MEETING OF EPC
BUREAU, SECRETARIAT HAS CIRCULATED TO BIG SEVEN
COUNTRIES A PAPER WHICH PRESENTS INFORMAL AND RATHER
IMPRESSIONISTIC UPDATE OF ECONOMIC OUTLOOK AND WHICH
IDENTIFIES AND BRIEFLY DISCUSSES MAJOR POLICY ISSUES
POSED BY CURRENT ECONOMIC SITUATION AND EXPECTED TRENDS.
PAPER DESIGNED TO ASSIST DISCUSSION AT APRIL 29 MEETING
OF EPC BUREAU IN WASHINGTON. PAPER WILL BE HAND-
CARRIED TO R. GELBARD (EUR/RPE) BY F. THOMAS (EB) ON
APRIL 21.

2. MAIN FEATURES OF PAPER ARE (A) DOWNWARD REVISION OF
U.S. GROWTH RATE TO 4.5 PERCENT FROM 5 PERCENT FORECAST
AT TIME OF MARCH EPC MEETING (DOWNWARD REVISION
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PRIMARILY REFLECTS SECRETARIAT'S INITIAL ASSESSMENT OF
EFFECT OF WITHDRAWAL OF TAX REBATE AND CONSEQUENT LOWER
GROWTH IN SECOND HALF OF 1977); (B) UPWARD REVISION OF
GROWTH FORECASTS FOR GERMANY AND ITALY. FORECAST OF
JAPANESE GROWTH REMAINS AT 5.25 PERCENT PROJECTED IN
MARCH; (C) FORECAST OF 3-3/4 PERCENT FOR GNP GROWTH OF
OECD AREA AS WHOLE IN 1977 (THIS FORECAST IS IDENTICAL

WITH THAT CONTAINED IN DECEMBER, 1976 ECONOMIC OUTLOOK
AND CONTRASTS WITH 4 PERCENT GROWTH RATE PROJECTED
AT TIME OF MARCH EPC; (D) RESULTS OF PRELIMINARY
ANALYSIS APPARENTLY UNDERTAKEN PURSUANT TO UNDER
SECRETARY COOPER'S SUGGESTION (AT MARCH XCSS) THAT
SECRETARIAT EXAMINE GROWTH IMPLICATIONS OF HYPOTHETICAL
SCENARIO UNDER WHICH DEFICIT COUNTRIES BEAR ENTIRE
BURDEN OF BALANCE OF PAYMENTS ADJUSTMENT THROUGH
DEFLATION AND/OR TRADE RESTRICTIONS. SECRETARIAT ASSUMES
IF DEFICIT COUNTRIES (OTHER THAN U.K. AND ITALY, WHOSE
CURRENT ACCOUNT EXPECTED TO IMPROVE) WERE TO HALVE THEIR
1976 CURRENT ACCOUNT DEFICITS BY 1978, EFFECTS ON U.S.
AND JAPANESE GROWTH WOULD BE MINIMAL, BUT DECLINE IN
EUROPEAN GROWTH RATES WOULD BE SIGNIFICANT (I.E., MORE
THAN ONE PERCENT PER YEAR IN FRG AND ABOUT 2 PERCENT
PER YEAR IN COUNTRIES TAKING RESTRICTIVE MEASURES).
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